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ABSTRACT

An accountability requirement for government funds for research (the effort reporting requirement) is discussed, with attention to Office of Management and Budget (OMB) Circular A-21, which regulates direct and indirect cost reimbursement to universities. Effort reporting forms are used by faculty members to allot their time among a number of discrete functions. A workshop, sponsored by the Committee on Science, Engineering, and Public Policy, was held to discuss the effort reporting requirement. Attended by university officials and faculty, the purpose of the workshops was to discuss the defects of effort reporting and the recent agreements by Stanford University and Yale University that eliminate it. The workshop also explored the adaptability of these agreements to other universities, many of which differ greatly from Stanford and Yale, and from each other. Generally, the workshop sought: (1) to probe the greater flexibility of the recent revision of A-21 (1982); and (2) to disseminate the findings to university representatives. The workshop recommended that a government-university research roundtable be formed to prepare a definitive study of policies and problems related to the handling of indirect costs for research. In addition, faculty should be more involved in the budgetary process at their universities. Appendices include: a history of effort reporting under OMB Circular A-21; an excerpt from the 1982 revision of Circular A-21; a Personnel Activity Reporting form used at University of California, Berkeley; and the articles, "Effort Reporting at Yale University," (Leonard V. Wesolowski) and "Effort Reporting at Stanford University" (Gerald J. Lieberman). (SW)

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NEA 1746

Report of the Workshop on the Effort Reporting Requirements of OMB Circular A-21

Committee on Science, Engineering, and Public Policy

National Academy of Sciences
National Academy of Engineering
Institute of Medicine

1984

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The panel for the Workshop on the Effort Reporting Requirements of OMB Circular A-21 was formed under the auspices of the Committee on Science, Engineering, and Public Policy. This study has been supported by funds from the Association of American Medical Colleges, the Association of American Universities, and the National Research Council (NRC) Fund, a pool of private, discretionary, nonfederal funds that is used to support a program of Academy-initiated studies of national issues in which science and technology figure significantly.

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INTRODUCTION

The federal government has been very effective in its support of scientific research at universities, mainly through the project grant system developed shortly after World War II. The past four decades of a U.S. government-university relationship in support of science have yielded handsome benefits for the nation and for mankind. As the support systems have expanded and evolved, problems have occurred that threaten the quality and productivity of the government-university relationship. Disagreement over effort reporting requirements is one such problem.

The effort reporting issue is part of the larger one of accountability for the substantial investment of public funds in support of science. The government's support of research includes both direct costs (such as equipment and salaries) and indirect costs (including administration, heat, lighting, and maintenance of buildings). Two administrative categories of indirect costs--general administration and departmental administration--account for a significant fraction of the indirect costs of research for most major research universities.

It is universally agreed that government funds spent for the support of science must be accounted for properly. However, the desire of universities to recover their indirect costs fully and the requirements of federal auditors for detailed documentation in order to ensure complete accountability have frequently placed these groups in adversary positions. Moreover, because total funds for research are limited, the increased percentage for indirect costs has become a divisive issue on campus. Investigators note that indirect costs decrease funds directly available for research, while administrators know that the recovery of indirect costs is necessary to pay for the actual costs of doing research.

Direct and indirect cost reimbursement to universities is regulated by Office of Management and Budget (OMB) Circular A-21. The 1979 revision required faculty to account for 100 percent of the time for which they were compensated, regardless of the fraction of it devoted to federally supported work. Federal auditors contended that, unless 100 percent of the work load was documented, they could not assess the reasonableness of the allocation of part of it. For example, the research function's share of indirect costs for departmental administration is computed by multiplying the total cost of departmental administration by a fraction whose numerator is research effort and whose denominator is total effort. The difficulty is that neither the numerator nor the denominator is well defined.

The history of effort reporting under OMB Circular A-21 is lengthy. See Appendix I for a brief account of this history and for some of the objections to effort reporting. Briefly put, the basic problem is that the requirements have been patterned largely after industrial practice--regular, after-the-fact reporting of time or effort expended. Such a scheme is not transferable to a university. Effort reporting forms call on faculty members to allot their time among a number of discrete functions (a typical form can be found in Appendix III). Most faculty effort, however, serves several ends at once and cannot be distributed rationally among discrete functions. An investigator working with a graduate student on a research project, for example, simply cannot divide such effort neatly into research and teaching. The nature of academic work and the capacity for effective integration of research and teaching are at issue.

The 100 percent requirement is absent from the 1982 revisions to Circular A-21. (The main changes resulting from these revisions are summarized in pages 232-233 of Appendix I.) It appears to many that the new version of Circular A-21 (Appendix II) gives universities important flexibility in designing and negotiating with the federal government methods of accountability that eliminate effort reporting to substantiate indirect costs. The confirmation of direct costs is still required.

Yale University recently negotiated an agreement with the U.S. Department of Health and Human Services (HHS), its cognizant negotiating agency, that appears satisfactory to government auditors, university administrators, and faculty. A similar agreement has been negotiated by Stanford University with the Department of Defense (DOD), its cognizant negotiating agency.

The purpose of the Workshop on the Effort Reporting Requirements of OMB Circular A-21 was to discuss faculty effort reporting and the recent agreements by Stanford and Yale that eliminate it, albeit for the time being. It also explored the adaptability of these agreements to other universities, many of which differ greatly from Stanford and Yale and from each other. More generally, the purpose was to probe the greater flexibility of the recent revision of A-21 and to disseminate the findings widely, particularly to presidents, comptrollers, and faculty senates of research universities.

FORMAT OF THE WORKSHOP

The workshop was sponsored by the National Academy of Sciences, the Association of American Universities, and the Association of American Medical Colleges. Knowledgeable university officials involved in the implementation of the provisions of A-21 and faculty representatives concerned about the present requirements of effort reporting were invited to participate in a one-day meeting on October 29, 1983. R. M. Rosenzweig, President, Association of American Universities, and I. M. Singer, Professor of Mathematics, University of California at Berkeley, cochaired the workshop.

The workshop began with a historical review of effort reporting by Linda S. Wilson, Associate Vice Chancellor for Research, University of Illinois at Urbana. A description of the Yale negotiation and agreement with HHS was then given by Leonard Wesolowski, Comptroller and Associate Vice President for Finance and Administration (see Appendix IV), and the Stanford agreement was discussed by Gerald Lieberman, Vice Provost and Dean of Graduate Studies and Research (see Appendix V). This was followed by a question and discussion period concerning the Stanford and Yale agreements.

Other administrators present described effort reporting systems at their universities: Stuart Cowen, Vice President for Financial Operations, Massachusetts Institute of Technology; Norman Mintz, Vice President for Academic Administration, Columbia University; Thomas O'Brien, Vice President for Financial Affairs, Harvard University; Donald Sigal, Director, Office of Sponsored Programs, University of Chicago.

Donald Langenberg, Chancellor, University of Illinois at Chicago, who has considerable expertise in government-university relations, spoke in general about problems of accountability and in particular about effort reporting at state

universities. Elizabeth Short, Director, Division of Biomedical Research and Faculty Development, Association of American Medical Colleges, discussed the special effort reporting problems in medical schools.

After lunch, there was a general discussion of effort reporting and indirect costs. In the late afternoon, the participants focused on recommendations.

DEFECTS OF EFFORT REPORTING

Despite the recent changes in OMB Circular A-21 (see Appendix II), the basic concept of effort reporting remains very much intact. For example, the circular still calls for faculty effort to be reported by discrete categories and expressed as percentages of total effort. It recognizes that "teaching, research, service, and administration are often inextricably intermingled," so that effort cannot be distributed precisely among them. In practice, however, this principle is often ignored. An institution's effort reporting data are subject to the review of federal auditors who can, and do, challenge the distribution claims. Resolution of such differences can be a lengthy, expensive process.

The workshop's basic objections to effort reporting may be summarized as follows (see References 2, 3, 4, 5, and Appendix I):

- Faculty effort cannot be allotted rationally among teaching, research, service, administration, or narrower categories. The practice creates spurious categories of effort and results in meaningless reports.
- The apparent invalidity of effort reporting leads to accounting statements that leave institutions vulnerable to substantial disallowances by federal auditors and to loss of public confidence in their integrity.
- False categories created by effort reporting could become real in the long term, disrupting our demonstrably successful system of scientific education and research. Separation of teaching and research, for example, would do away with a basic strength of our system.

- The requirement imposes major paperwork burdens and costs on both the institutions and the government.

These defects are serious, in the workshop's view, and fully justify the elimination of all effort reporting. The practice cannot be discarded, however, without compensating change in our methods of accountability for research support; further, the history of effort reporting indicates that the concept will not die quickly or easily. Meanwhile, the possibility of gaining significant relief from the burdens and dangers of effort reporting for indirect costs is being demonstrated at Stanford and Yale universities.

EFFORT REPORTING AT STANFORD AND YALE UNIVERSITIES

Stanford and Yale negotiated their agreements with the government while the March 1979 version of Circular A-21 was in effect. The agreements were struck as exceptions to the 1979 circular, but they are not exceptions under the 1982 version. Both universities were motivated at that time by concern over the impact of 100 percent effort reporting; the government was concerned by rising indirect cost rates.

The Stanford Agreement

Stanford negotiated its agreement with the Department of Defense, the cognizant negotiating agency for the university. The pact took effect in September 1981; it runs for five years through the 1985/86 fiscal year. The university demonstrated that the departmental administration component of its indirect costs for research during the previous five years had remained essentially level at about 22.2 percent of total direct costs of research. Stanford proposed that the departmental administration rate be fixed for five years; the auditors agreed, providing it was fixed at 19.8 percent. The 2.4 percent concession costs Stanford close to $2 million annually in unreimbursed indirect costs for research. However, the fixed departmental administration rate eliminates the need for data provided by effort reporting in calculating indirect cost rates for departmental administration.

Under the agreement, the accounting system supplies monthly statements of all direct charges on government grants. The principal investigator, or a designee, signs the following statement:

> Salary and wage charges have been reviewed and are reasonably accurate approximations of effort applied and charged to this project. Significant differences, if any, have been noted for correction through the accounting system.

This method for reporting direct charges expended on federal research is now the only form of effort reporting required by the university.

The agreement also provides that the department head or dean must approve each case where a tenure-line investigator's combined direct salary charges to federal grants and contracts exceed 50 percent of his salary for the academic year (80 percent for medical school faculty). Such approval must be documented. A third provision relieves Stanford of project-by-project documentation of voluntary cost sharing (the fraction of the cost of federally sponsored projects contributed voluntarily by the institution).

To renew the agreement, Stanford may have to re-establish the level and stability of the departmental administration component of its indirect cost rate. To do so may call for new data, since reporting for departmental indirect cost activities is not required by the pact. A good possibility for obtaining data is through interviews with a relatively small number of faculty selected by a method agreed on by the university and the auditors. A Stanford group has already published a statistical sampling approach for this purpose (see Reference 1).

The Yale Agreement

The Yale experience has been much like Stanford's, although the institutions' agreements differ. Yale negotiated with the Department of Health and Human Services, the cognizant negotiating agency, and the agreement covers the four fiscal years ending June 30, 1985. The pact actually was signed in February 1983, but the auditors agreed to apply it retroactively to 1982, which had not yet been audited.

Yale demonstrated a stable indirect departmental administration rate for the four fiscal years 1978/79 through 1981/82 and proposed to fix the rate at 19.25 percent. The negotiated fixed rate is 18.9 percent; the 0.35 percent concession costs Yale about $150,000 annually in unreimbursed indirect costs of research.

As at Stanford, investigators at Yale certify only direct charges to federal grants and contracts and sign the following statement: "I certify that the allocation of salary during the specified period to the project(s) identified is proper." The instructions for the certification state:*

> If the percentage of salary corresponds to a reasonable estimate of the actual percentage of total activity, please sign at the bottom of this form. If it does not, write a reasonable estimate to the left of the printed percentage and sign. If the written percentage is lower than the printed percentage, a salary transfer must be forwarded with this form. Total activity includes all activity expended by an individual in the performance of his or her duties and responsibilities as a University employee. For faculty with nine-month appointments, a separate form will be required for summer compensation.

Also, as at Stanford, new data may be needed for the effort component of the indirect departmental administration rate to negotiate an extension of the pact. To obtain such data, Yale plans to interview a limited number of faculty selected by a statistical sampling technique to be developed by the institution and agreed to by the auditors.

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* Some investigators are paid full salary from a government agency (such as NSF summer salary). Because some interpret it as meaningless, they may object to the phrase "actual percentage of total activity" in the ensuing paragraph and can elect to strike the paragraph or sign a different form that does not contain it.

THE AGREEMENT IN PRACTICE

Stanford and Yale believe their agreements have worked well to date; both expect to negotiate extensions of their pacts. Faculty members (at these institutions and elsewhere) typically have never had reservations about certifying salaries charged directly to grants and contracts. The elimination of effort reporting to document indirect cost activities at Stanford and Yale has ended faculty objections to it. Paperwork and auditing requirements for both the institutions and the government have been sharply reduced. The possibility of disallowances related to indirect costs of research as a result of effort reporting is removed. And the fixed rate for indirect departmental administration may help to control indirect costs of research.

The institutions' concessions on their indirect departmental administration rates do entail real costs--close to $2 million annually at Stanford and $150,000 annually Yale. These costs are at least partially offset, however. The agreement at Stanford, for example, avoided a costly redesign of the accounting system that would have been needed to accommodate effort reporting as required by the March 1979 version of Circular A-21. No redesign is needed under the 1982 revision. Stanford feels that its concession was probably well worth the elimination of quarterly documentation of indirect effort for faculty, monthly documentation of staff, and project-by-project documentation of voluntary cost sharing. Stanford does not give a dollar value for savings on paperwork. Yale, however, puts its paperwork savings at about $100,000 per year, leaving a real loss of $50,000 annually owing to its concession on indirect departmental administration.

The agreements also yield intangible gains. The absence of the discord associated with conventional effort reporting enhances the research environment

and supports traditional university values. The removal of a potential source of disallowances lessens the tension between universities and the government.

Both Stanford and Yale anticipate that, if it is necessary in the future to assess faculty effort to document indirect costs of research, interviewing limited numbers of faculty will prove superior to conventional methods. The procedure is expected to be unobjectionable and to produce more valid data than are obtained by present methods.

VARIABILITY OF INSTITUTIONS

The workshop recognized that arrangements beneficial to some institutions may hold little interest for others. Our universities are highly variable in size and other important characteristics, and their costs and accounting systems are correspondingly variable. In particular, many state institutions do some form of effort reporting to meet state requirements. Such institutions' objections to effort reporting for federal purposes may be tempered by the fact that they perform some analyses of faculty activity for the state anyway. The workshop did not discuss the variations in state requirements for effort reporting, or their similarities and dissimilarities with the A-21 requirements. Where they are similar, our basic objections remain the same.

Some universities have instituted elaborate effort reporting systems at considerable cost in order to meet government requirements. If they are efficient, effective, and there is very little faculty objection to them, the incentives for changing the system to eliminate effort reporting may be low. Other universities have not attempted full recovery of departmental indirect costs for research, and therefore do not need to document such costs by effort reporting.

The workshop heard a presentation on the special problems of effort reporting in medical schools. These problems are important, complicated, and often different from those of nonmedical schools. Clinical faculty are a large fraction of the faculty at most medical schools. At universities operating their own hospitals, they must account for 100 percent of their time to meet Medicare-Medicaid requirements for reimbursement for effort spent in patient care and medical education. Changes in effort reporting under Circular A-21 do not ease Medicare-Medicaid requirements. The negotiated arrangement at Stanford, for example, has not relieved the medical school faculty of these other effort reporting requirements.

THE WORKSHOP'S RECOMMENDATIONS

Although the Stanford and Yale agreements markedly ease the uncertainties and friction that can result from conventional effort reporting, they do not eliminate the requirement as a means of accountability under Circular A-21. Nevertheless, the workshop concluded that, on the whole, those agreements are clear improvements on conventional practice and that they benefit both the universities and the government. Our fundamental objections to effort reporting remain, but its elimination may require entirely new approaches to accountability. Given today's circumstances, the workshop considers the two agreements valuable examples of what can be done to set aside effort reporting to substantiate indirect costs of research and, as at Stanford, of the project-by-project documentation of voluntary cost sharing. These examples show how negotiation between universities and the federal government may lead to the elimination of effort reporting, at least for the short term. The workshop believes this opportunity should not be overlooked.

I. IT IS RECOMMENDED THAT BOTH THE GOVERNMENT AND THE UNIVERSITY COMMUNITY CAREFULLY EXAMINE THE STANFORD AND YALE AGREEMENTS ON EFFORT REPORTING AS EXAMPLES OF WHAT MIGHT BE ACHIEVED AT OTHER INSTITUTIONS, AND, MORE BROADLY, THAT UNIVERSITIES FULLY EXPLORE METHODS SUITED TO THEIR INDIVIDUAL CIRCUMSTANCES FOR ELIMINAT-

ING EFFORT REPORTING TO DOCUMENT INDIRECT COSTS OF RESEARCH.*

Effort reporting is bound up with a larger issue—the total indirect costs of academic research—which inevitably entered the workshop's deliberations. The handling of indirect costs of research is often a cause of considerable disagreement between academic scientists and university administrators. Investigators tend to view indirect costs of research as questionable drains on funds directly applicable to research; administrators view them as a necessary means of recouping the actual cost of operating and maintaining research facilities. The federal government, moreover, is concerned about increases in indirect costs as a fraction of the total costs of research. The workshop did not consider the indirect cost of research issue in detail, but did agree that it is a serious and important matter, warranting comprehensive study. We agreed also that faculty members—the people on the firing line—ought to be much more active in the development of policies for handling indirect costs of research on their campuses.

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* While this report was in preparation, the President's Private Sector Survey on Cost Control: Task Force Report on Research and Development (the "Grace Report") was released. The recommendation on page 97 of the Grace Report reinforces our report:

> R&D 5-1: The cognizant agencies should negotiate indirect cost rates that include a fixed rate for the administrative components and relieve the universities of the main portion of the burden associated with effort reporting.
>
> The administrative components of the indirect cost rate (departmental administration, general and administration, and sponsored project administration) are the most difficult components to establish on the basis of documented, objective evidence and further attempts to reach a compromise on acceptable forms of documentation will only create more friction and frustration. Instead fixed rates should be negotiated and the ongoing requirements for documentation of actual rates should be eliminated.

II. IT IS RECOMMENDED THAT THE GOVERNMENT-UNIVERSITY RESEARCH ROUNDTABLE FORMED UNDER THE AUSPICES OF THE NATIONAL ACADEMY OF SCIENCES MOUNT A DEFINITIVE STUDY OF POLICIES AND PROBLEMS RELATED TO THE HANDLING OF THE INDIRECT COSTS FOR RESEARCH. IT IS FURTHER RECOMMENDED THAT AT INDIVIDUAL UNIVERSITIES FACULTY BECOME INVOLVED IN THE VARIOUS BUDGETING PROCESSES THAT AFFECT INDIRECT COSTS OF RESEARCH.

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APPENDIXES

APPENDIX I

History of Effort Reporting From Appendix C of
Strengthening the Government-University Partnership in Science,
the Report of the Ad Hoc Committee on
Government-University Relationships in Support of Science

Committee on Science, Engineering, and Public Policy
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Extract from
STRENGTHENING THE GOVERNMENT-UNIVERSITY PARTNERSHIP IN SCIENCE

Appendix C
History of Effort Reporting

A continuing source of friction in federal-academic relationships is fiscal accountability. Effort reporting has been a particularly contentious subsidiary issue. For many in both government agencies and universities the major concern has been the 1979 revision of the Office of Management and Budget's Circular A-21--"Cost Principles for Educational Institutions." The revised version required a report of all salaried activities for those whose salaries were charged in any degree as direct or indirect costs on a federal agreement. For such people, the 1979 revision of A-21 required in particular an accounting "for 100 percent of the activity for which the employee is compensated and which is required in fulfillment of the employee's obligations to the institution."[*] The reporting system must "reflect the ratio of each of the activities which comprise the total workload of the individual . . . and must use workload categories reflecting activity which is applicable to each sponsored agreement,* each indirect cost activity, and each major function of the university."†

The required accounting for 100 percent of workload in specific categories was particularly objectionable to many in universities, on the grounds that:

*In Circular A-21 the term sponsored agreement is defined as any grant, contract, or other agreement between the institution and the federal government.
†Circular A-21 defines major functions of the institution as (1) instruction and departmental research; (2) organized research (i.e., separately budgeted research); (3) other sponsored activities; and (4) other institutional activities.

* It seemed to imply that the government fully owns a principal investigator and has a right to documentation of his or her workload even when some of it is unconnected with federally sponsored research.
* It ignored the impossibility of segregating teaching, research, and administration, especially in basic research.
* Such requirements create false categories and inevitably result in meaningless reports that may bury, not reveal, instances of improper use of federal money.[‡]

Another frequent objection to the revised effort-reporting procedure was that it required the assignment of precise percentages to the workload categories. This objection was expressed repeatedly despite the revised A-21's explicit recognition that:[‡]

> . . . because of the nature of the work involved in academic institutions, the various and often interrelated activities of professorial and professional employees cannot be measured with a high degree of precision, that reliance must be placed on reasonably accurate approximations, and that acceptance of a degree of tolerance in measurement is appropriate.

Many people apparently are unaware of this caveat, find it inadequate, have little confidence in its effectiveness, or are concerned about its interpretation in future audits.

The requirement for effort reporting and the objections to it are not new. Circular A-21, issued September 10, 1958, by the Bureau of the Budget, was revised in summer 1967, when the bureau introduced amendments that would have required detailed documentation of faculty effort. The intensity of the reaction against these regulations led to the formation of a task force, chaired by Cecil Goode of the Bureau of the Budget, to examine the issue. After extensive interviews involving 22 universities and more than 350 individuals, most of them faculty, the Goode report, "Time and Effort Reporting by Colleges and Universities in Support of Research Grants and Contracts," was published in February 1968. The first of its five recommendations began: "For professorial staff, drop the requirement for effort reports contained in the present A-21." The first two of the report's conclusions read as follows:[§]

1. Time or effort reports now required of faculty members are meaningless and a waste of time. They have engendered an emotional reaction in the academic community that will endanger university-federal relations if relief is not provided. They foster a cynical attitude toward the requirements of government and take valuable effort away from more important activities, not the least of which is the research involved.
2. We need to go to a system that does not require documentary support of faculty time devoted to government-sponsored research. No real evidence of faculty effort is provided anyway under the present system, and there is no way to prove how much effort was in fact expended.

As a result of the Goode report, Circular A-21 was revised but requirements for documentation of salary distribution were not eliminated. The revised A-21 required the institution to use one of two prescribed methods for reporting direct costs and gave a separate requirement for reporting indirect costs. The methods for reporting direct costs were:

- The stipulated salary support method, a new method derived from the Goode committee's efforts. It was available only for professorial and certain professional staff. The government and the universities determined stipulated salary support for each individual, on the basis of their judgment of the monetary value of the contribution he or she was expected to make to the research project. This judgment had to take into account any cost sharing by the institution, the extent of the investigator's planned participation in the project, and his or her ability to perform as planned in light of other commitments. In particular, information was required on total salary for the academic year, other research projects or proposals for which salary was allocated, other duties, such as teaching and administration, the number of graduate students for which the individual was responsible, or other institutional activities. Also stipulated were several requirements about payment methods, provision for isolation of summer salaries, handling of changes, and nature of audit.
- The payroll distribution method, in which direct costs for personal services were based on the institution's payroll system supported by either: (1) an adequate appointment and workload distribution system accompanied by monthly reviews by responsible officials and reporting of significant changes in workload of each professor or professional staff member or (2) a monthly after-the-fact certification system that required individual investigators, deans, departmental chairmen, or supervisors having firsthand knowledge of the services performed on each agreement to report the distribution of effort. Changes had to be incorporated during the accounting period and entered into the payroll distribution system. Direct charges for salaries and wages of nonprofessionals had to be supported by records of time, attendance, and payroll distribution.

Indirect costs for personal services were to be supported by the institution's accounting system, if it was comprehensive. If it was not, periodic surveys, made at least annually, were required.

The stipulated salary support method was rarely used. It was cumbersome in requiring explicit negotiation for each individual and renegotiation if additional sponsored research was awarded for the same individual. It was ambiguous about incorporating salary increases in a period in which faculty salaries were rising and about documentation and audit requirements.

Until the early 1970s, the effort-reporting requirements of Circular A-21 caused little attention, although many features were the same as those that today raise objections. At that time, federal auditors, particularly DHEW auditors, began to question the adequacy of universities' compliance with Circular A-21. Systems previously approved by federal auditors were found by new auditors to fall short of meeting requirements. Particular concerns were the absence of documentation of monthly reviews, review by nonprofessional staff rather than by individuals with firsthand knowledge of the work performed, absence of controls to prevent overlap of charges for the same activity as both direct and indirect costs, and absence of controls to prevent charging for more than 100 percent of effort.

These concerns coincided with and were influenced by growth of the federal research budget and uneasiness about rising indirect costs. The indirect costs were rising in part because of the universities' adjustment to the removal of the statutory limit on indirect costs in 1966 and the allowability of recovery of indirect costs

on the basis of actual costs. By 1975, congressional concern, aimed particularly at the DHEW budget, stimulated the agency to propose revisions in Circular A-21 designed to tighten procedures for determining indirect costs and to reduce reimbursement of them.

Among the revisions proposed by DHEW was the requirement for accounting for 100 percent of employees' workload, whether charged directly or indirectly to sponsored agreements, and more stringent requirements for review of salary distributions by persons with firsthand knowledge. There ensued protracted efforts by educational institutions to mitigate the effects of these and other proposed revisions in A-21. The institutions submitted alternative proposals, including a new salary documentation system--the monitored workload system--better suited to the academic environment. Most universities recognized that the existing effort-reporting requirements were intrusive and unsatisfactory. They wanted to meet federal demands for time-and-effort accounting in the way they account for their own funds--by prospective planning and subsequent revision if changes are warranted.

The discussions among DHEW, universities, and OMB continued during 1976 and 1977. In March 1978, OMB published in the Federal Register its proposed revision of Circular A-21.

The OMB proposal caused considerable concern to universities and to DHEW. Effort reporting was one of several issues in the long negotiations that followed. OMB officials met extensively with university groups, university officials, agency representatives, and other interested parties. The Association of American Universities (AAU) and the Council on Governmental Relations (COGR), both university associations, were particularly active in these discussions. Although some universities involved faculty in discussion of the proposed revisions, faculty did not participate in the formal negotiating sessions, and the professional societies played little or no role in the discussion. However, a number of individuals as well as institutions and federal agencies submitted extensive comments on the revision proposed by OMB.

Although the objections to 100 percent reporting and the importance of the intertwining of research, teaching, and service in academic institutions were repeatedly raised by university representatives in these discussions, federal officials were not persuaded. The position of OMB was that the university by federal agreement is entitled only to reimbursement of actual costs, up to the

amount awarded, and must document that the costs were indeed incurred. Furthermore, some documentation of adherence to intended purposes is required. The government officials insisted that unless 100 percent of the workload were documented, the reasonableness of an allocation of part of the workload could not be assessed reliably. They argued that assurance that the government was paying only its fair share required documentary evidence that the percentage of effort charged to a federal agreement corresponded to the effort actually expended under it.

The revision of Circular A-21 involved issues in addition to effort reporting. Some had potential for substantial impact both financially and in terms of intrusion into the prerogatives traditionally reserved to the universities. Finally, in March 1979, OMB issued the final revision of Circular A-21. Despite the extensive efforts to reconcile differences, neither DHEW nor the universities found the revisions fully satisfactory.

The OMB revision of Circular A-21 replaced the previously approved methods for salary documentation with two others: the monitored workload method (MWL) and the personnel activity reports method (PAR). The MWL method was patterned after a proposal by COGR, but the OMB version differed from the universities' proposals in six ways, three of them major. First, the revision required that every change in the distribution of effort during the year be identified, reviewed, and, if significant, documented into the system. Second, OMB restricted the monitored workload method to professorial and professional staff; the PAR method had to be used for nonprofessional staff. Third, OMB eliminated a special feature of the university proposal--that activities treated as indirect costs could be documented on the basis of an after-the-fact annual survey. Because of these modifications, very few universities elected to use the monitored workload method. The PAR system is quite similar to the after-the-fact reporting system in the previous version of A-21, although the frequency of reporting was reduced for professorial and professional staff.

As both DHEW and the universities developed materials to help implement the A-21 revision, differences in interpretation emerged. A number of universities engaged consultants to help them design systems to meet the requirements. Intermittent reports by the press of inadequate accountability in universities and audit

reports setting aside as unauditable* large sums of salary charges led some institutions to be especially cautious in their response to A-21.

The full requirements of revised Circular A-21 came into effect for most universities with the fall semester or quarter of 1980. As implementation proceeded, faculty at some universities, particularly but by no means exclusively private institutions, began to object. Somewhat less concern emerged at state universities, long subject to state requirements for effort reporting. Similarly, universities, that previously had acquiesced to the demands of DHEW auditors for tighter effort reporting did not find the new effort-reporting requirements a source of major concern.

Much depended on the extent of faculty involvement in the process. To meet the A-21 requirement for review by persons with firsthand knowledge, many universities, some on the advice of consultants, required faculty to complete and sign their effort reports. Some faculty members who recalled the furor over effort reporting in the mid-1960s were deeply concerned, even outraged, that the requirement had reemerged.[3] It is not clear whether they realized the extent of the effort reporting required between 1967 and 1979. A few faculty members declined to sign the PAR reports. Many others regarded them as a nuisance and meaningless, but completed them anyway. More than 20 faculty senates passed resolutions opposing the requirements.

In 1978, the severity of the problems between the government and universities led to the creation of an independent National Commission on Research (NCR), which included representatives from universities, research institutes, foundations, and private corporations. Among other issues, the commission carefully considered effort reporting. In March 1980, in the first of five reports,[4] Accountability: Restoring the Quality of the Partnership, NCR recommended that effort reporting be eliminated as a measure of performance in federally sponsored research. In its place, NCR recommended adoption of a simpler, less costly method:

*These audit reports did not indicate that the expenditures were illegal or improper but simply that they could not be audited under existing regulations and must be adjudicated.

- the institution would provide a report of salaries charged to research;
- the investigator would certify the charges as fair; and
- federal program officers would review the charges in light of the work performed.[5]

Many urged these recommendations on OMB, but they were not accepted.

In response to faculty concerns, university representatives together with some faculty members reopened discussions with OMB and developed suggestions for further revisions of Circular A-21. The summer and fall of 1981 saw extensive negotiations between a government task force headed by Glenn R. Schleede, then Associate Executive Director of OMB, and a university task force headed by Harold Shapiro, President of the University of Michigan. The university task force was organized by the AAU and included representatives of the Council of Scientific Society Presidents (CSSP) and members of COGR. The result was a proposal by AAU and CSSP for modification of A-21, coupled with a "Comment from a Faculty Perspective on Behalf of Effective Work." A dozen other faculty members, not part of the task force, submitted a more vigorous document, "Some Faculty Perspectives on Circular A-21."[6]

On January 7, 1982, OMB published for comment in the Federal Register (vol. 47, pp. 933-934) a proposed revision of the sections of Circular A-21 on salary documentation requirements. This proposal closely followed the AAU-CSSP proposal, but also included changes resulting from OMB's discussion of the AAU-CSSP proposal with federal agencies. OMB's final version, issued August 3, 1982, differs slightly from the proposed version. The most significant improvements are summarized below.

1. The rules adopt language recommended by university representatives with respect to the intermingling of instruction, research, service, and departmental administration. In addition, the revision states that precise assessment of factors contributing to costs is not always feasible or expected.

2. Employees are not required to confirm distribution of their activity. University officials can confirm the distribution using "suitable means of verification that the work was performed." The term "firsthand knowledge" was removed.

3. Removal of language stating that "accounting for 100% of activity for which the employee is compensated. . . ."
4. Universities may treat all activities not directly charged to sponsored agreements in a residual category; its components do not initially require separate documentation.
5. Universities subsequently may take indirect departmental expenses from the residual category by means of statistical sampling, suitably conducted surveys, negotiated fixed rates, or other reasonable methods mutually agreed to.
6. OMB prescribes no best method for documenting the distribution of personal services. Instead it offers principles and criteria and includes examples of acceptable methods for payroll distribution.
7. Where criteria for acceptable methods are met, no additional documentation is required.
8. The definition of organized research was changed to eliminate language viewed as having required reporting of voluntary cost sharing except where cost sharing is volunteered in anticipation of an award.
9. The costs of interest associated with buildings and capital equipment used in support of sponsored agreements is allowable under certain circumstances.
10. Modifications giving flexibility in handling various major functions and other changes in language provide latitude in treatment of certain costs.[6]

The revised A-21 gives universities some flexibility in designing reporting methods to fit their individual situations. Concern about substantial disallowances resulting from audit undoubtedly will stimulate university officials to design these systems with care. Universities have the opportunity to involve interested faculty in modification of current systems.

REFERENCES

1. Office of Management and Budget, "Circular A-21, Principles for Determining Costs Applicable to Grants, Contracts and Other Agreements with Educational Institutions," Federal Register 44: 12368-12380 (March 6, 1979), paragraph J.6.
2. A. Bartlett Giamatti, "Science and the University," Science 210: 984-987 (November 28, 1980).

3. Serge Lang, "Time and Effort Reporting: Deja Vu?" Science 207: 1148-1151 (March 14, 1980).
4. National Commission on Research, Accountability: Restoring the Quality of the Partnership (Washington, D.C., March 1980).
5. Saunders Mac Lane, "A-21: Continued Complications with OMB Regulations, Memorandum to the Members, National Academy of Sciences," April 1, 1982.
6. Milton Goldberg, "A-21 in Transition," NCURA Newsletter 13: 1-2 (January-February, 1982).

APPENDIX II

Excerpt From
Office of Management and Budget Circular A-21
1982 Revision

federal register

Tuesday
August 3, 1932

Part IV

Office of Management and Budget

Circular A-21; Cost Principles for Educational Institutions

OFFICE OF MANAGEMENT AND BUDGET

Circular A-21, Cost Principles for Educational Institutions

This Notice revises OMB Circular A-21, "Cost principles for educational institutions."

The revision modifies the procedures for allocating salary costs and the rules dealing with the allowability of interest costs. It also revises the definition section concerning major functions of an institution.

The revised language on salary costs originated from a proposal by the Association of American Universities and Council of Scientific Society Presidents. The proposal was analyzed and approved with only minor changes by an interagency task force chaired by the Office of Management and Budget. The revision gives universities greater flexibility in documenting salary costs. It does so by doing away with the current methods for documenting such costs monitored workload and personnel activity reports. It replaces these methods with general principles for documentation and criteria for acceptable methods.

EFFECTIVE DATE: This revision becomes effective upon issuance.

FOR FURTHER INFORMATION CONTACT: John J. Lordan, Chief, Financial Management Division, Office of Management and Budget, Washington, D.C. 20503; (202) 395-6823.

SUPPLEMENTARY INFORMATION: On January 7, 1982, the Office of Management and Budget published a proposed revision to Circular A-21 in the **Federal Register** for comment. In response to the publication, approximately 160 comments were received from Members of Congress, Federal agencies, university administrators, faculty members, professional associations, and members of the general public.

There follows a summary of the major comments grouped by subject and a response to each, including a description of any changes made as a result of the comments. Other changes have been made to improve clarity, readability, and precision, and to reduce the burden of compliance as much as possible.

Definition of Terms

Comment. Several commenters suggested that the definition be changed to allow universities to treat university research the same as departmental research.

Response. We believe that university research, if significant, should be identified and bear its fair share of overhead costs. The revised language is the same as proposed by the Association of American Universities and Council of Scientific Society Presidents (AAU-CSSP).

General Principles

Comment. Several commenters stated that the proposal was unclear as to what should be included in the "residual" category and who should determine it. Several commenters also proposed that its composition be left to the institutions.

Response. We agree that some clarification was needed, and clarifying changes have been made. Our intent is that the initial determination will be made by the institution. This of course, would be subject to review by the Government.

Comment. Several commenters objected to the use of "often" in the statement that teaching, research, service, and administration are "often inextricably intermingled." Objection was also raised concerning our use of "always" in the statement that a "precise assessment of factors that contribute to costs is not always feasible * * *".

Response. While we agree that in many instances assessment of grant costs is difficult and workload categories are inextricably intermingled, this is not always the case. For example, a faculty member may work summers on a grant and have no other duties. In these and other similar cases, it would be quite easy to identify grant costs.

Comment. Several commenters objected to the provision that requires cognizant agency approval of methods for apportioning salaries and wages other than those described in paragraph J.8.c. One commenter stated that this might encourage the cognizant agency to introduce additional requirements.

Response. The provision in question permits institutions to use other methods that meet the criteria for acceptable methods.

The three examples of acceptable methods were proposed by the AAU-CSSP. The interagency task force accepted the section on criteria for additional methods but believed that it would not be unreasonable to require cognizant agency review of other methods. Cognizant agencies are not permitted to impose additional requirements.

Criteria for Acceptable Methods

Comment. Several commenters urged that the language in paragraph 6b(2)(c), which requires that the institution's payroll system allow confirmation of activity allocable to each sponsored agreement and indirect cost category, be changed. They proposed that the system reflect only activity that is "charged."

Response. We disagree. The central point is that the payroll distribution system must permit confirmation of where a cost should be charged, not merely where it was charged. The cost should, of course, be charged to the activity to which it is allocable.

Comment. One commenter objected to the use of after-the-fact confirmation for salary costs other than those borne by the Government.

Response. The language in the revision was proposed by the AAU-CSSP, and we believe it is appropriate.

Interest

Comment. Several commenters interpreted the proposal as permitting claims for interest when endowment funds or other insitutional funds are used to acquire assets.

Response. Our intent is to recognize interest actually paid to external parties, and the final language has been amended to clarity the point.

Comment. Several commenters objected to restricting allowability of interest costs to items of equipment costing $25,000 or more.

Response. We agree and, on the advice of the National Science Foundation, have lowered the threshold to $10,000.

Comment. Several commenters urged us to change the effective date to July 1, 1981, the date in a previous publication of the proposal. One commenter proposed having no effective date.

Response. We do not agree with either proposal. Applying the new rules to old buildings would appear to provide a windfall recovery, and might drive up ovehead costs of federally assisted programs. Applying them only to new buildings, on the other hand, may be expected to hold down overhead costs, since some institutions may now convert from expensive leased space to their own buildings.

Comment. Several commenters advised us that the proposed language seems to omit coverage of newly constructed buildings.

Response. The language has been clarified to make it clear that these buildings and major reconstruction and remodeling of existing buildings completed after July 1, 1982, are covered.

Comment. Several commenters expressed concern about what would be included under "equipment." For example, one person questioned whether capital equipment would include communication and computer systems.

Response. This point has been clarified by referring to the definition of capital equipment in paragraph J.13.

Candice C. Bryant,

Acting Deputy Assistant Director for Administration.

Circular No. A-21, Revise, Transmittal Memorandum No. 1

July 23, 1982.

To: The Heads of Executive Departments and Establishments.

Subject: Cost principles for universities.

This Transmittal Memorandum revises OMB Circular No. A-21, "Cost principles for educational institutions."

The revision cha nges the procedures covering allocation of personal service costs and recognizes interest costs in certain circumstances.

David A. Stockman,

Director.

Circular A-21—Cost Principles for Educational Institutions

Circular A-21 is revised as follows:

Paragraph B.1.

The following replaices section B.1:

B. *Definition of Terms.*

1. *Major functions of an institution* refers to instruction, organized research, other sponsored activities, and other institutional activities as defined below:

a. *Instruction* means the teaching and training activities of an institution. Except for research training as provided in c. below, this term includes all teaching and training activities, whether they are offered for credits toward a degree or certificate or on a non-credit basis, and whether they are offered through regular academic departments or separate divisions, such as a summer school division or an extension division. Also considered part of this major function are departmental research, and, where agreed to, university research.

(1) *Sponsored instruction and training* means specific instructional or training activity established by grant, contract, or cooperative agreement. For purposes of the cost principles, this activity may be considered a major function even though an institution's accounting treatment may include it in the instruction function.

(2) *Departmental research* means research development and scholarly activities that are not organized research and, consequently, are not separately budgeted and accounted for. Departmental research, for purposes of this document, is not considered as a major function, but as a part of the instruction function of the institution.

b. *Organized research* means all research and development activities of an institution that are separately budgeted and accounted for. It includes:

(1) *Sponsored research* means all research and development activities that are sponsored by Federal and non-Federal agencies and organizations. This term includes activities involving the training of individuals in research techniques (commonly called research training) where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function.

(2) *University research* means all research and development activities that are seperately budgeted by the institution under an internal application of institutional funds. University research, for purposes of this document, may be considered a part of the instruction function, or may be combined with sponsored research under the function, of organized research, or may be treated as a separate major function, as agreed to with the cognizant agency.

c. d. becomes c.

d. e. becomes d.

Paragraph J.8.

The following replaces sections J.8. b. through d.

J. *Compensation for Personal Services.*

8.b.(1) *General Principles.* (a) The distribution of salaries and wages whether treated as direct or indirect costs, will be based on payrolls documented in accordance with the generally accepted practices of colleges and universities. Institutions may include in a residual category all activities that are not directly charged to sponsored agreements, and that need not be distributed to more than one activity for purposes of identifying indirect costs and the functions to which they are allocable. The components of the residual category are not required to be separately documented.

(b) The apportionment of employee's salaries and wages which are chargeable to more than one sponsored agreement or other cost objective will be accomplished by methods which will (1) be in accordance with Sections A-2 and C above, (2) produce an equitable distribution of charges for employee's activities, and (3) distinguish the employees' direct activities from their indirect activities.

(c) In the use of any methods for apportioning salaries, it is recognized that, in an academic setting, teaching, research, service, and administration are often inextricably intermingled. A precise assessment of factors that contribute to costs is not always feasible, nor is it expected. Reliance, therefore, is placed on estimates in which a degree of tolerance is appropriate.

(d) There is no single best method for documenting the distribution of charges for personal services.

Methods for apportioning salaries and wages, however, must meet the criteria specified in J.8.b.(2) below. Examples of acceptable methods are contained in J.8.c. below. Other methods which meet the criteria specified in J.8.b.(2) below also shall be deemed acceptable, if a mutually satisfactory alternative agreement is reached.

(2) *Criteria for Acceptable Methods.* (a) The payroll distribution system will (i) be incorporated into the official records of the institution, (ii) reasonably reflect the activity for which the employee is compensated by the institution, and (iii) encompass both sponsored and all other activities on an integrated basis, but may include the use of subsidiary records. (Compensation for incidental work described in J.8.a. need not be included.)

(b) The method must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached.

Direct cost activities and indirect cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a requirement for either direct or indirect cost activities if other responsible persons make appropriate confirmations.

(c) The payroll distribution system will allow confirmation of activity allocable to each sponsored agreement and each of the categories of activity needed to identify indirect costs and the functions to which they are allocable. The activities chargeable to indirect cost categories or the major functions of the institution for employees whose salaries must be apportioned (see J. 8.b.1.(b) above), if not initially identified as separate categories, may be subsequently distributed by any reasonable method mutually agreed to, including, but not limited to, suitably conducted surveys, statistical sampling procedures, or the application of negotiated fixed rates.

(d) Practices vary among institutions and within institutions as to the activity constituting a full workload. Therefore, the payroll distribution system may reflect categories of activities expressed as a percentage distribution of total activities.

(e) Direct and indirect charges may be made initially to sponsored agreements on the basis of estimates made before services are performed. When such estimates are used, significant changes in the corresponding work activity must be identified and entered into the payroll distribution system. Short-term (such as one or two months) fluctation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period.

(f) The system will provide for independent internal evaluations to ensure the system's effectiveness and compliance with the above standards.

(g) For systems which meet these standards, the institution will not be required to provide additional support or documentation for the effort actually performed.

J.8.C. *Examples of Acceptable Methods for Payroll Distribution:*

1. *Plan—Confirmation:* Under this method, the distribution of salaries and wages of professorial or professional staff applicable to sponsored agreements is based on budgeted, planned, or assigned work activity, updated to reflect any significant changes in work distribution. A plan-confirmation system used for salaries and wages charged directly or indirectly to sponsored agreements will meet the following standards:

(a) A system of budgeted, planned, or assigned work activity will be incorporated into the official records of the institution and encompass both sponsored and all other activities on an integrated basis. The system may include the use of subsidiary records.

(b) The system will reasonably reflect only the activity for which the employee is compensated by the institution (compensation for incidental work described in J.8.a. need not be included). Practices vary among institutions and within institutions as to the activity constituting a full workload. Hence, the system will reflect categories of activities expressed as a percentage distribution of total activities. (But see Section H for treatment of indirect costs under the simplified method for small institutions.)

(c) The system will reflect activity applicable to each sponsored agreement and to each category needed to identify indirect costs and the functions to which they are allocable. The system may treat indirect cost activities initially within a residual category and subsequently determine them by alternate methods as discussed in J.8.b.(2)(c).

(d) The system will provide for modification of an individual's salary or salary distribution commensurate with an significant change in the employee's work activity. Short-term (such as one of two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term such as an academic period. Whenever it is apparent that a significant change in work activity which is directly or indirectly charged to sponsored agreements will occur or has occurred, the change will be documented over the signature of a responsible official and entered into the system.

(e) At least annually a statement will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed, stating that salaries and wages charged to sponsored agreements as direct charges, and to residual, indirect cost or other categories are reasonable in relation to work performed.

(f) The system will provide for independent internal evaluation to ensure the system's integrity and compliance with the above standards.

(g) In the use of this method, an institution shall not be required to provide additional support or documentation for the effort actually performed.

2. *After-the-fact Activity Records:* Under this system the distribution of salaries and wages by the institution will be supported by activity reports as prescribed below.

(a) Activity reports will reflect the distribution of activity expended by employees covered by the system (compensation for incidental work as described in J.8.a. need not be included).

(b) These reports will reflect an after-the-fact reporting of the percentage distribution of activity of employees. Charges may be made initially on the basis of estimates made before the services are performed, provided that such charges are promptly adjusted if significant differences are indicated by activity records.

(c) Reports will reasonably reflect the activities for which employees are compensated by the institution. To confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the reports will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed.

(d) The system will reflect activity applicable to each sponsored agreement and to each category needed to identify indirect costs and the functions to which they are allocable. The system may treat indirect cost activities initially within a residual category and subsequently determine them by alternate methods as discussed in J.8.b.(2)(c).

(e) For professorial and professional staff, the reports will be prepared each academic term, but no less frequently than every six months. For other employees, unless alternate arrangements are agreed to, the reports will be prepared no less frequently than monthly and will coincide with one or more pay periods.

(f) Where the institution uses time cards or other forms of after-the-fact payroll documents as original documentation for payroll and payroll charges, such documents shall qualify as records for this purpose provided that they meet the requirements in (a) through (e) above.

3. *Multiple Confirmation Records:* Under this system the distribution of salaries and wages of professorial and professional staff will be supported by records which certify separately for direct and indirect cost activities as prescribed below.

(a) For employees covered by the system, there will be direct cost records to reflect the distribution of that activity expended which is to be allocable as direct cost to each sponsored agreement. There will also be indirect cost records to reflect the distribution of that activity to indirect costs. These records may be kept jointly or separately (but are to be certified separately, see below).

(b) Salary and wage charges may be made initially on the basis of estimates made before the services are performed provided that such charges are promptly adjusted if significant differences occur.

(c) Institutional records will reasonably reflect only the activity for which employees are compensated by the institution (compensation for incidental work as described in J.8.a. need not be included).

(d) The system will reflect activity applicable to each sponsored agreement and to each category needed to identify indirect costs and the functions to which they are allocable.

(e) To confirm that distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the record for each employee will include:

(1) The signature of the employee or of a person having direct knowledge of the work, confirming that the record of activities allocable as direct costs of each sponsored agreement is appropriate.

(2) The record of indirect costs will include the signature of responsible person(s) who use suitable means of verification that the work was performed and is consistent with the overall distribution of the employee's compensated activities.

These signatures may all be on the same document.

(f) The reports will be prepared each academic term, but no less frequently than every six months.

(g) Where the institution uses time cards or other forms of after-the-fact payroll documents as original documentation for payroll and payroll charges, such documents shall qualify as records for this purpose provided they meet the requirements in (a) through (f) above.

Revised Changes

Change F.4.a.(2)(a) (in Departmental Administration Expenses) sentence 2, to read:

Salaries of professorial and professional staff whose responsibilities to the institution require administrative work that benefits sponsored projects may also be included to the extent that the portion charged to departmental administration is determined in accordance with Section J.8.

Change F.5.a. (in Sponsored Projects Administration), sentence 3, to read:

The salaries of professorial and professional staff whose responsibilities to the institution require administrative work that benefits sponsored projects may also be included to the extent that the portion charged to sponsored agreements administration is determined in accordance with Section J.8.

Change F.7.a. (in Student Administration and Services), sentence 2, to read:

The salaries of members of the academic staff whose responsibilities to the institution require administrative work that benefits sponsored projects may also be included to the extent that the portion charged to Student Administration is determined in accordance with Section J.8.

Deleted J.8.c. *Monitored Workload.*

Deleted J.8.d *Personnel Activity Reports.*

Relabel J.8.e. as J.8.d.

Relabel J.8.f. as J.8.e.

Paragraph J.17.

Add at the end of section a., "except as indicated in e. below."

Add a new section e., as follows:

J.17.e. The cost of interest paid to an external party is allowable where associated with the following assets, provided the assets are used in support of sponsored agreements, and the total cost (including depreciation or use allowance, operation and maintenance costs, interest, etc.) does not exceed the rental cost of comparable assets in the same locality.

(1) Buildings acquired or completed on or after July 1, 1982.

(2) Major reconstruction and remodeling of existing buildings completed on or after July 1, 1982.

(3) Acquisition or fabrication of capital equipment (as defined in paragraph J.13. "Equipment and other capital expenditures") completed on or after July 1, 1982, costing $10,000 or more, if agreed to by the Government.

[FR Doc. 82-20890 Filed 8-2-82; 8:45 am]

BILLING CODE 3410-01-M

APPENDIX III

Typical Personnel Activity Reporting (PAR) Form
at University of California at Berkeley

UNIVERSITY OF CALIFORNIA
PERSONNEL ACTIVITY REPORT

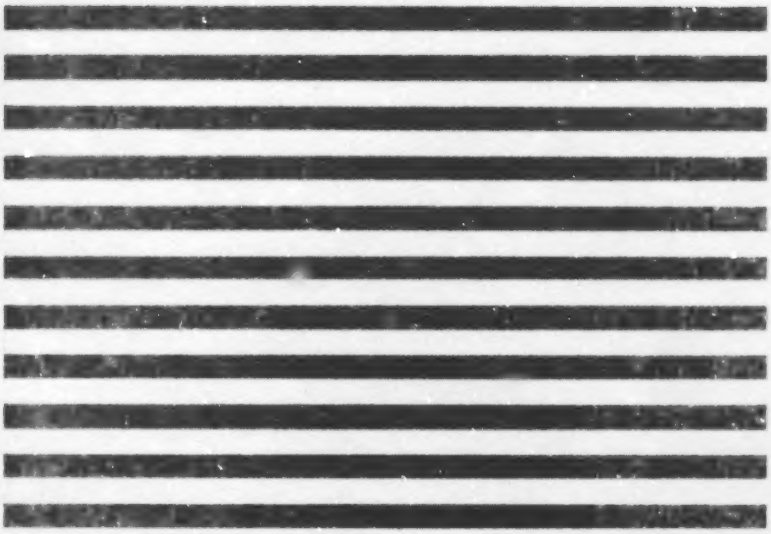
CAMPUS	
PAR NO.	

1 14

EMPLOYEE NAME:
TITLE:
DEPARTMENT:

EMPLOYEE NUMBER:
REPORT PERIOD:

NOTES



100%

TO BE COMPLETED BY EMPLOYEE OR RESPONSIBLE OFFICIAL

ESTIMATED DISTRIBUTION OF EFFORT FOR REPORT PERIOD: PERCENT

	KEYPUNCH INSTRUCTIONS	
1. Instruction and Departmental Research	(15-17)	_____
2. Sponsored Research	(18-20)	_____
3. University and Public Service	(21-23)	_____
4. Sponsored Projects Administration*	(24-26)	_____
5. Departmental Administration	(27-29)	_____
6. General Administration	(30-32)	_____
7. Other Institutional Activities	(33-35)	_____
	TOTAL 100%	

*TO BE COMPLETED ONLY BY FACULTY AND OTHER PROFESSIONAL EMPLOYEES NOT ELIGIBLE FOR PREMIUM OVERTIME.

CONFIRMATION BY ☐ Employee ☐ Responsible Official

I certify that this report represents a reasonable estimate of the actual effort expended during the period reported and that I have first-hand knowledge of 100% of the effort being certified.

_____ _____
Signature Date

_____
Title

DEPARTMENTAL ADMINISTRATION CHECKLIST

If you have entered a percentage in the Departmental Administration category, please check the types of activities performed during the period reported:

_____ Personnel Matters
_____ Budget and Financial Matters
_____ Space/Equipment Matters
_____ Long Range Planning
_____ Other Activities

UCSA 0001-SPA (11-82)

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APPENDIX IV

Effort Reporting at Yale University
by
Leonard V. Wesolowski

EFFORT REPORTING AT YALE UNIVERSITY

Leonard V. Wesolowski
Comptroller and Associate Vice President
for Finance and Administration

Background Information—Fixed Indirect Departmental Rate

- Desire to simplify the "effort reporting" process.
  - The universities recognize their obligations to account for expenditures of federal funds.
  - Accounting for salaries and wages charged directly to grants and contracts is possible.
  - Introduction of the 100 percent requirement is an unreasonable infringement on the faculty member.
  - The attempt to classify a faculty member's time into numerous categories of "indirect cost pools" cannot be done properly.

- HHS stated publicly that they are willing to listen to alternatives. In order to come up with a suitable alternative, the proposal would have to benefit HHS and the university.

- Breakthrough came in an informal conference when HHS complained that indirect costs continue to rise, and the greatest growth is in the departmental administration category. HHS officials believe this is the softest area of indirect costs and, particularly, the area of faculty effort reporting of indirect costs. HHS appears to be reasonably comfortable with property expenses, general administrative expenses, and sponsored research administration expenses.

- Yale's departmental administration expenses were reviewed in detail by HHS for the fiscal years ended June 30, 1980, and June 30, 1981, and, as a result, both parties were satisfied that the costs included in the departmental administration pool were proper.

- Yale's proposal was to use a four-year average calculated as follows:

	Fiscal Year Ended June 30				
	1981	1980	1979	1978	Total
Departmental administration rate	19.8	23.6	21.9	23.8	89.1%
Property expenses moved out of DA pool	—	3.7	4.4	4.0	12.1
	19.8	19.9	17.5	19.8	77.0
Four-year average					19.25
Concession made by Yale					0.35
Negotiated departmental administration rate					18.90%

- The fixed rate of 18.9% is applicable to the fiscal years ending June 30, 1982; June 30, 1983; June 30, 1984; and June 30, 1985.

- Yale agrees not to make any changes in costing policies or procedures that would affect the Indirect Departmental expense component.

- "Since it will not be necessary to obtain information relative to salary and wage costs that are normally included in the Indirect Departmental component, we will only require certification of direct costs in our 'effort reporting' system for the years covered by this agreement."

- In preparing for the renegotiation of this agreement after June 30, 1985, a mutually agreed upon statistical sampling technique will be developed in order to measure the faculty effort component of the Indirect Departmental rate.

- There was serious discussion concerning the fixing of the General and Administrative and Sponsored Projects Administration components of Yale's indirect cost rate, but it was finally decided to postpone expansion of the scope until a later date.

YALE UNIVERSITY

CONFIRMATION OF SALARY CHARGES TO FEDERAL GRANTS AND CONTRACTS

FOR THE PERIOD:

Please return this completed form to your business administrator, who will forward it to the Grants and Contracts Financial Administration Department.

If the percentage of salary corresponds to a reasonable estimate of the actual percentage of total activity, please sign at the bottom of this form. If it does not, write in a reasonable estimate to the left of the printed percentage and sign. If the written percentage is lower than the printed percentage, a salary transfer must be forwarded with this form. Total activity includes all activity expended by an individual in the performance of his or her duties and responsibilities as a University employee. For faculty with nine-month appointments, a separate form will be required for summer compensation.

FEDERAL GRANTS AND CONTRACTS	PERCENTAGE OF SALARY

I certify that the allocation of salary during the specified period to the project(s) identified above is proper.

DATE _____ EMPLOYEE OR SUPERVISORY SIGNATURE _____

YALE UNIVERSITY
Indirect Cost Rates
1981/82

	Organized Research			Other Sponsored Activities			Instruction		
	Indirect Costs	MTDC Base	Rates	Indirect Costs	MTDC Base	Rates	Indirect Costs	MTDC Base	Rates
On Campus									
General and Administrative	$ 3,733,242	$56,302,689	6.6%	$ 453,706	$6,839,226	6.6%	$ 3,307,073	$49,874,968	6.6%
Sponsored Projects Administration	614,955	56,302,689	1.1%	78,039	6,839,226	1.1%	43,920	49,874,968	.1%
Student Service	110,062	56,302,689	.2%	--	6,839,226	--	5,973,365	49,874,968	12.0%
*Indirect Departmental	10,641,208	56,302,689	18.9%	1,292,614	6,839,226	18.9%	9,426,369	49,874,968	18.9%
Library	2,178,410	55,473,099	3.9%	326,109	6,162,322	3.3%	15,052,225	49,874,968	30.2%
Property Expenses	11,900,896	50,897,532	23.4%	195,491	2,606,166	7.5%	5,533,587	49,874,968	11.1%
Depreciation	4,919,812	50,897,532	9.7%	83,339	2,606,166	3.2%	2,119,709	49,874,968	4.3%
	$34,098,585		63.8%	$2,429,298		42.6%	$41,436,248		83.2%
Modified On Campus									
General and Administrative	$ 3,733,242	$56,302,689	6.6%	$ 453,706	$6,839,226	6.6%	$ 3,307,073	$49,874,968	6.6%
Sponsored Projects Administration	614,955	56,302,689	1.1%	78,039	6,839,226	1.1%	43,920	49,874,968	.1%
Student Service	110,062	56,302,689	.2%	--	6,839,226	--	5,973,365	49,874,968	12.0%
*Indirect Departmental	10,641,208	56,302,689	18.9%	1,292,614	6,839,226	18.9%	9,426,369	49,874,968	18.9%
Library	2,178,410	55,473,099	3.9	326,106	6,162,322	5.3%	15,052,225	49,874,968	30.2%
	$17,277,877		30.7%	$2,150,468		31.9%	$33,802,952		67.8%
Off Campus									
General and Administrative	$ 3,733,242	$56,302,689	6.6%	$ 453,706	$6,839,226	6.6%	$ 3,307,073	$49,874,968	6.6%
Sponsored Projects Administration	614,955	56,302,689	1.1%	78,039	6,839,226	1.1%	43,920	49,874,968	.1%
Student Service	110,062	56,302,689	.2%	--	6,839,226	--	5,973,365	49,874,968	12.0%
*Indirect Departmental	10,641,208	56,302,689	18.9%	1,292,614	6,839,226	18.9%	9,426,369	49,874,968	18.9%
	$15,099,467		26.8%	$1,824,359		26.6%	$18,750,727		37.6%
Connecticut Mental Health Center									
General and Administrative	$ 3,733,242	$56,302,689	6.6%						
Sponsored Projects Administration	614,955	56,302,689	1.1%						
Student Service	110,062	56,302,689	.2%						
*Indirect Departmental	10,641,208	56,302,689	18.9%						
Library	2,178,410	55,473,099	3.9%						
Property Expense	1,657,296	9,478,032	17.5%						
	$18,935,173		48.2%						

*Predetermined rate 18.9%

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Yale University *New Haven, Connecticut 06520*
155 Whitney Avenue

LEONARD V. WESOLOWSKI
Comptroller
and
Associate Vice President for
Finance and Administration

February 28, 1983

Mr. Walter M. Boland, Director
Division of Cost Allocation
HHS, Region 1
J.F. Kennedy Federal Building
Government Center
Boston, Massachusetts 02203

Dear Mr. Boland:

The purpose of this letter is to confirm the results of our discussions and to serve as a written agreement which establishes a fixed rate for the Indirect Departmental component of our Indirect Cost Rate. The fixed rate will be 18.9% and will be applicable to the fiscal years ending June 30, 1982, June 30, 1983, June 30, 1984, and June 30, 1985.

The attached schedule shows Indirect Departmental cost rates for four years on a comparable basis. Prior to the year ended June 30, 1981, some property expenses and use allowances were included in the Indirect Departmental cost pool. The change in 1981 improved the identification of types of costs, and the property expense and depreciation were moved from the Indirect Departmental pool to the Property Expense and Depreciation pools. These property costs are relatively easily and objectively determined and will continue to be included in the Property Expense and Depreciation pools.

As part of the negotiated fixed rate agreement, we would agree not to make any changes in costing policies or procedures that would affect the Indirect Departmental expense component.

Since it will not be necessary to obtain information relative to salary and wage costs that are normally included in the Indirect Departmental component, we will only require certification of direct costs in our "effort reporting" system for the years covered by this agreement.

You may indicate your concurrence with this agreement by countersigning in the space provided below and returning a copy for our files.

Sincerely,

/s/ Leonard V. Wesolowski

Leonard V. Wesolowski

LVW:ehs
Enc.

Concurrence: Department of Health and Human Services
Agency

By /s/ Walter M. Boland

Title Director, Division of Cost Allocation

Date February 28, 1983

APPENDIX V

Effort Reporting at Stanford University

by

Gerald J. Lieberman

EFFORT REPORTING AT STANFORD UNIVERSITY

Gerald J. Lieberman
Vice Provost and Dean of Graduate Studies and Research
Stanford University

At Stanford, we negotiated with the government, through our cognizant negotiator, the Office of Naval Research (ONR), an agreement that became effective September 1981, whereby the old burdensome system of effort reporting for faculty and staff with respect to department administration and general administration was eliminated. At the same time, we negotiated the elimination of documented cost-sharing on a project-by-project basis and for volunteered cost-sharing reporting. These provisions were negotiated with ONR on an exception basis before A-21 was revised in December 1982; however, in principle, the method used at Stanford can now be negotiated by any university under the recently revised A-21. The 1982 revision to OMB Circular A-21 expanded the effort reporting alternatives beyond the two methods—Personnel Activity Reporting and Monitored Workload System—contained in the 1979 version. One alternative, covered in A-21, J.6.b.(2)(c), is a system which allows confirmation of activity allocable to each sponsored agreement with effort associated with indirect cost categories subsequently distributed by application of a negotiated fixed rate.

In place of actual effort reporting, we agreed to a negotiated fixed rate method of accounting of effort. That is, we agreed to fix department administration at 19.8 points of our indirect cost rate. The government agreed to this formula, partly because we were able to show them that, over a previous five-year period, department administration varied less than 1 point as a component of our overhead rate, thus assuring the government of considerable stability of these costs as a percentage of our overhead.

Because there was some risk to the government in agreeing to a "fixed rate" formula, they required that we give up, or discount, 2.4 points of our indirect cost

rate, or somewhat under $2 million for 1981/82. That is, we agreed to forgo indirect cost recovery equivalent to a 12 percent reduction of the estimated 1981/82 salaries and expenses that otherwise would have been part of the Departmental Administration and General Administration cost pools.

We decided that the loss of somewhat under $2 million was well worth elimination of the hassles of having to document on a monthly basis for staff and on a quarterly basis for faculty their indirect efforts and project-by-project cost-sharing.

There are now two significant requirements that constitute "effort reporting" at Stanford. First, the prinicipal investigator, or his/her designee, must sign monthly expenditure statements on which any salaries are charged to sponsored projects a certification which states that "Salary and wage charges have been reviewed and are reasonably accurate approximations of effort applied and charged to this project. Significant differences, if any, have been noted for correction through the accounting system." Such a statement is automatically printed on all relevant budget statements and the principal investigator only has to sign his or her name.

I might add that, for those faculty who have large numbers of grants or contracts, their department administrator can summarize all the salary charges for each project for that month so that the principal investigator need only sign the summary statement.

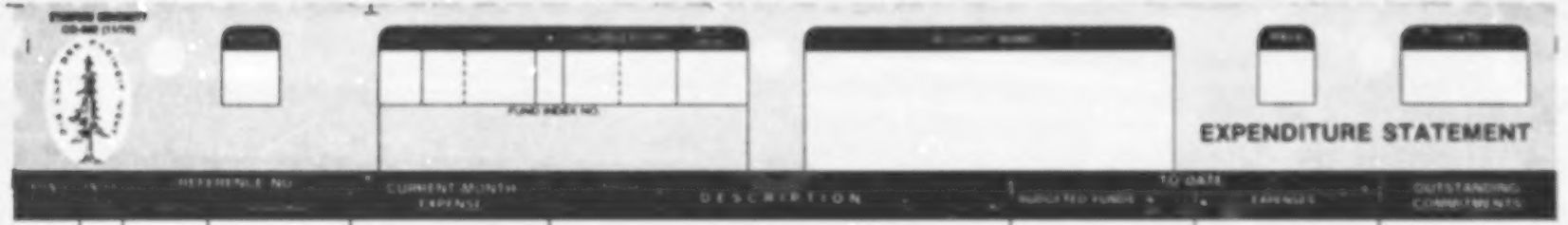
The second requirement we agreed to is documentation of the department chair or dean's approval for each case when a tenure-line faculty member's direct salary charges to all sponsored projects together exceed 50 percent of that faculty member's total salary for the academic year (this requirement applies to all faculty except those in the School of Medicine, where the threshold of required department chair or dean approval is for salary charges to sponsored projects which are in excess of 80 percent, since the Medical School faculty spend less time in formal classroom teaching). The departments must keep files of such documented approvals for audit purposes. Obviously, no such requirements apply to those non-tenure-line faculty who have full-time research appointments.

This straightforward method now used in lieu of determining the indirect administrative costs at the school and department levels has worked well for Stanford. Not only has it eliminated the burdens of effort reporting from the

faculty, but it also has saved Stanford the considerable expense of having to develop a new accounting system which would have been required to accommodate the effort reporting system initially required by the government under A-21 provisions put into effect in 1981.

The government can be satisfied with the fixed-rate formula adopted because (1) there has been virtually no variation from year to year in the past of that portion of overhead which represents indirect efforts, and (2) because of the "discount" they were given in indirect salary charges as compared to the actual indirect effort levels estimated to be incurred.

This agreement will be effective through 1985/86, at which time the negotiated fixed percentages will again be validated through some sort of survey mechanism, probably using statistical sampling, to determine the accuracy of the formula's actual representation of effort.



SALARY AND WAGE CHARGES HAVE BEEN REVIEWED AND ARE REASONABLY ACCURATE APPROXIMATIONS OF EFFORT APPLIED AND CHARGED TO THIS PROJECT. SIGNIFICANT CHANGES, IF ANY, HAVE BEEN CORRECTED THROUGH THE ACCOUNTING SYSTEM. P.I. (ONLY) SIGNATURE_____ DATE _____

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